



25 Sigourney Street
Hartford CT 06106-5032

STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

PS 2005(2)

POLICY STATEMENT

Connecticut Income Tax on Bonds or Obligations Issued by the United States Government, by State Governments, or Municipalities

Background: Generally, the taxation of interest income for Connecticut income tax purposes is the same as its taxation for federal income tax purposes. In the case of certain bonds or obligations issued by the United States (U.S.) government, state governments, or municipalities, there are exceptions. The interest of some may be taxable for federal income tax purposes, but not for both.

Purpose: This Policy Statement discusses whether the interest income received on governmental obligations is subject to Connecticut income tax. This Policy Statement contains lists of such obligations, including a list of:

- Exempt obligations, the interest from which is **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income (see List A);
- Exempt obligations, the interest from which is **not includable** in federal gross income, therefore no subtraction is made from federal adjusted gross income in computing Connecticut adjusted gross income (see List B);
- Taxable obligations, the interest from which is **includable** in federal gross income, therefore no addition is made to federal adjusted gross income in computing Connecticut adjusted gross income (see List C); **and**
- Taxable obligations, the interest from which is **added to** federal adjusted gross income in computing Connecticut adjusted gross income (see List D).

These lists are neither all-inclusive nor intended to be conclusive of the taxable or exempt status of any particular obligation issued by or in conjunction with a listed agency or instrumentality. Even though a listed agency or instrumentality generally only issues either exempt obligations or taxable obligations, it does not follow that each and every obligation

carrying the name of that particular agency or instrumentality is either exempt or taxable. An agency or instrumentality may issue its own obligations that are exempt and also may handle private obligations that are taxable. For example, the agency or instrumentality may administer, purchase and sell, insure, or guarantee an otherwise private obligation. Such action by the agency or instrumentality does not convert a private obligation into a direct and primary obligation of the U.S. government and, therefore, does not make the private obligation tax-exempt. The taxable status of each obligation must be determined separately in accordance with this Policy Statement.

Effective Date: Applicable for income years beginning on or after January 1, 2005.

Statutory Authority: Conn. Gen. Stat. §12-701(a)(10), (14) and (20). Conn. Agencies Regs. §§12-701(a)(10)-2, 12-701(a)(20)-2, and 12-701(a)(20)-3.

U.S. Government Obligations: 31 U.S.C. §3124(a) prohibits states from taxing income from stocks and obligations of the U.S. government. In *Smith v. Davis*, 323 U.S. 111 (1944), the U.S. Supreme Court described four characteristics of such obligations:

1. Written documents;
2. The bearing of interest;
3. A binding promise by the U.S. government to pay specified sums at specified dates; **and**
4. Specific Congressional authorization which also pledged the faith and credit of the U.S. government in support of the promise to pay.

Generally, the interest income received on U.S. government obligations is includable in federal adjusted gross income, which is the starting point for computing Connecticut adjusted gross income.

When Owned by Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(A)(i), any income with respect to which taxation by any state is prohibited by federal law (**including interest income received from U.S. government obligations**) is, to the extent properly includable in gross income for federal income tax purposes, **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income.

When Owned by Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(B)(i), any income with respect to which taxation by any state is prohibited by federal law (**including interest income received from U.S. government obligations**) is, to the extent properly includable in gross income for federal income tax purposes, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

For example:

- Interest received on a federal income tax refund is not interest received on a U.S. government obligation because there is neither a written document in which the U.S. government has promised to pay a definite amount at a specified date nor is there any binding acknowledgement by the U.S. government of the correctness of the refund claim.
- Interest received on obligations which the U.S. government is merely the guarantor and not the obligor are not U.S. government obligations.
- Interest required to be paid by the U.S. government. Where a person (the seller) other than the U.S. government sells U.S. government obligations to a buyer, and simultaneously agrees

to repurchase these obligations at a future time for a price which includes interest from the date of sale (**repurchase agreement**), interest paid to the buyer at the time of repurchase is interest paid by the seller, not interest paid by the U.S. government on U.S. government obligations (and therefore not subtracted from federal adjusted gross income of the buyer in computing Connecticut adjusted gross income). Any interest paid by the U.S. government on such obligations during the period prior to repurchase is paid to the seller, not to the buyer (and to be **subtracted from** federal adjusted gross income of the seller in computing Connecticut adjusted gross income).

Modification for Expenses – U.S. Government Obligations:

When Owned by Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(A)(vii) and (viii), any interest on indebtedness incurred or continued to purchase or carry U.S. government obligations, the interest on which is exempt from Connecticut income tax, and the amortizable bond premium for the taxable year on any U.S. government obligations, the interest on which is exempt from Connecticut income tax, is, to the extent deductible in determining federal adjusted gross income, **added to** federal adjusted gross income in computing Connecticut adjusted gross income.

When Owned by Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(A)(vi) and (vii), any interest on indebtedness incurred or continued to purchase or carry U.S. government obligations, the interest on which is exempt from Connecticut income tax, and the amortizable bond premium for the taxable year on any bonds or obligations, is, to the extent deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's

federal taxable income in computing its Connecticut taxable income.

Other Income That Congress Has Prohibited States From Taxing: Certain instrumentalities of the U.S. government are empowered to issue obligations to provide funding for their stated purposes. While these obligations may not meet the four characteristics of U.S. government obligations that were established in *Smith v. Davis*, the enabling legislation may prohibit the imposition of state or local taxes upon the obligations of these instrumentalities.

A Congressional prohibition of state taxation of the income of a federal instrumentality is not to be extended beyond its express terms. For example, while Congress has prohibited states from taxing the income of federal credit unions, it has not prohibited states from taxing depositors on interest received on their deposits at such federal credit unions. Also, while Congress has prohibited states from taxing Federal Home Loan Bank bonds and debentures, it has not prohibited states from taxing depositors on interest received on demand/overnight deposits at such banks.

When Owned by Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(B)(i), any income with respect to which taxation by any state is prohibited by federal law (**including income received from obligations which are not U.S. government obligations but which Congress has prohibited states from taxing**) is, to the extent properly includable in gross income for federal income tax purposes, **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income.

When Owned by Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(B)(i), any income with respect to which taxation by any state is prohibited by federal law (**including income received from obligations which are not U.S. government obligations but which Congress has prohibited states from taxing**) is, to the extent properly includable in gross income for federal income tax purposes, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal

taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

Modification for Expenses – Obligations (Other Than U.S. Government Obligations) That Congress Has Prohibited States From Taxing:

When Owned by Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(A)(vii) and (viii), any interest on indebtedness incurred or continued to purchase or carry obligations or securities, the interest on which is exempt from Connecticut income tax, and the amortizable bond premium for the taxable year on any bonds or obligations, the interest on which is exempt from Connecticut income tax, is, to the extent deductible in determining federal adjusted gross income, **added to** federal adjusted gross income in computing Connecticut adjusted gross income.

When Owned by Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(A)(vi) and (vii), any interest on indebtedness incurred or continued to purchase or carry obligations or securities, the interest on which is exempt from Connecticut income tax, and the amortizable bond premium for the taxable year on any bonds or obligations, the interest on which is exempt from Connecticut income tax, is, to the extent deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

State and Municipal Government Obligations: 26 U.S.C §103(a) provides that, for federal income tax purposes, gross income does not include interest on any state or municipal government obligations. Such obligations do not include private activity bonds unless those bonds are “qualified bonds” within the meaning of 26 U.S.C. §141.

When Owned by Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(A)(i), any interest income from state and municipal government obligations (**other than obligations of the State of Connecticut or a Connecticut municipality**) is, to the extent not properly includable in gross income for federal income tax purposes, **added to** federal adjusted gross income in computing Connecticut adjusted gross income.

When Owned by Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(A)(i), any interest income from state and municipal government obligations (**other than obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands**) is, to the extent properly not includable in gross income for federal income tax purposes, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate’s share of the Connecticut fiduciary adjustment is **added to** the trust or estate’s federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate’s share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate’s federal taxable income in computing its Connecticut taxable income.

Modification for Expenses – State and Municipal Government Obligations:

When Owned by Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(B)(viii) and (ix), any interest on indebtedness incurred or continued to purchase or carry obligations or securities (including state or municipal government obligations (**other than obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands**)), the interest on which is subject to Connecticut income tax but exempt from federal income tax, and the amortizable bond premium for the taxable year on any bonds or obligations (including state or municipal government obligations (**other than obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands**))), the interest on which is subject to Connecticut income tax but exempt from federal income tax, is, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual, **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income.

When Owned by Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(B)(vi) and (vii), any interest on indebtedness incurred or continued to purchase or carry obligations or securities (including state or municipal government obligations (**other than obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands**))), the interest on which is subject to Connecticut income tax but exempt from federal income tax, and the amortizable bond premium for the taxable year on any bonds or obligations (including state or municipal government obligations (**other than obligations of the State of Connecticut, or a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands**))), the interest on which is subject to Connecticut income tax but exempt from federal income tax, is, to the extent that such interest on indebtedness is not deductible in determining federal taxable income

prior to deductions relating to distributions to beneficiaries, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

Mutual Funds Qualified to Pay Exempt-Interest Dividends: If, at the close of each quarter of a mutual fund's taxable year, at least 50% of the value of the fund's assets consists of state and municipal government obligations described in 26 U.S.C. §103(a), that portion of the fund's distribution to its shareholders attributable to those obligations will qualify as exempt-interest dividends as defined in 26 U.S.C. §852(b)(5). Exempt-interest dividends are properly not includable in federal gross income.

When Shareholders Are Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(A)(ii), any exempt-interest dividends **(other than those derived from obligations of the State of Connecticut or a Connecticut municipality)** are **added to** federal adjusted gross income in computing Connecticut adjusted gross income.

When Shareholders Are Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(A)(ii), any exempt-interest dividends **(other than those derived from obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands)** are netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary

adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

Modification for Expenses – Mutual Funds Qualified to Pay Exempt-Interest Dividends:

When Shareholders Are Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(B)(ix), any interest on indebtedness incurred or continued to purchase or carry shares of a mutual fund (1) at least 50% of the value of whose assets, at the close of each quarter of such fund's taxable year, consists of state and municipal government obligations **(other than obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands)** and (2) the exempt-interest dividends from which are subject to Connecticut income tax but exempt from federal income tax, is, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income **and** is attributable to a trade or business carried on by such individual, **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income.

When Shareholders Are Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(B)(vii), any interest on indebtedness incurred or continued to purchase or carry shares of a mutual fund (1) at least 50% of the value of whose assets, at the close of each quarter of such fund's taxable year, consists of state and municipal government obligations **(other than obligations of the State of Connecticut, a Connecticut municipality, or any territory or possession of the U.S., such as Puerto Rico, Guam, and the Virgin Islands)** and (2) the exempt-interest dividends from which are subject to Connecticut income tax but exempt from federal income tax, is, to the extent that such interest on indebtedness is not deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn.

Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

Mutual Funds Qualified to Pay Exempt Dividends: If, at the close of each quarter of a mutual fund's taxable year, at least 50% of the value of the fund's assets consists of obligations, the income from which Congress has prohibited states from taxing that portion of the fund's distribution to its shareholders attributable to those obligations will qualify as exempt dividends as defined in Conn. Gen. Stat. §12-701(a)(14). Generally, these dividends are includable in federal adjusted gross income, which is the starting point for computing Connecticut adjusted gross income.

When Shareholders Are Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(B)(ii), any exempt dividends are, to the extent properly includable in gross income for federal income tax purposes, **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income.

When Shareholders Are Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(B)(ii), any exempt dividends are, to the extent properly includable in gross income for federal income tax purposes, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn.

Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

Modification for Expenses – Mutual Funds Qualified to Pay Exempt Dividends:

When Shareholders Are Individuals: Under Conn. Gen. Stat. §12-701(a)(20)(A)(viii), any interest on indebtedness incurred or continued to purchase or carry shares of a mutual fund (1) at least 50% of the value of whose assets, at the close of each quarter of such fund's taxable year, consists of obligations or securities (including U.S. government obligations) and (2) the dividends from which are exempt from Connecticut income tax but subject to federal income tax, is, to the extent deductible in determining federal adjusted gross income, **added to** federal adjusted gross income in computing Connecticut adjusted gross income.

When Shareholders Are Trusts or Estates: Under Conn. Gen. Stat. §12-701(a)(10)(A)(vii), any interest on indebtedness incurred or continued to purchase or carry shares of a mutual fund (1) at least 50% of the value of whose assets, at the close of each quarter of such fund's taxable year, consists of obligations or securities (including U.S. government obligations) and (2) the dividends from which are exempt from Connecticut income tax but subject to federal income tax, is, to the extent deductible in determining federal taxable income prior to deductions relating to beneficiaries, netted along with other items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), against items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) in computing the Connecticut fiduciary adjustment. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B), the trust or estate's share of the Connecticut fiduciary adjustment is **added to** the trust or estate's federal taxable income in computing its Connecticut taxable income. If the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(B) exceeds the total of the items enumerated in Conn. Gen. Stat. §12-701(a)(10)(A), the trust or estate's share of the Connecticut fiduciary adjustment is **subtracted from** the trust or estate's federal taxable income in computing its Connecticut taxable income.

List A – Examples of Obligations Exempt From Connecticut Income Tax:

(Modification required in computing Connecticut adjusted gross income) The following are examples of exempt obligations, the income from which is properly includable in gross income for federal income tax purposes and which is **subtracted from** federal adjusted gross income in computing Connecticut adjusted gross income:

A.1. **Banks for Cooperatives** – Notes, debentures, and other similar obligations issued by banks for cooperatives (12 U.S.C. §2134)

A.2. **Federal Deposit Insurance Corporation** – Bonds, notes, debentures, and other similar obligations issued by the Federal Deposit Insurance Corporation (12 U.S.C. §1825)

A.3. **Federal Farm Credit Banks** – Consolidated system-wide bonds, notes, debentures, and other obligations issued jointly and severally under 12 U.S.C. §2153 by banks of the Federal Farm Credit System (12 U.S.C. §§2055, 2079, 2098, 2134)

A.4. **Federal Financing Bank** – Obligations issued by the Federal Financing Bank (12 U.S.C. §2290)

A.5. **Federal Intermediate Credit Banks** – Bonds, notes, debentures, and other similar obligations issued by Federal Intermediate Credit Banks (12 U.S.C. §2079)

A.6. **Federal Land Banks and Federal Land Bank Associations** – Bonds, notes, debentures, and other similar obligations issued by Federal Land Banks and Federal Land Bank Associations (12 U.S.C. §2055)

A.7. **General Services Administration Public Building Trust Participation Certificates** – First Series, Series A through E; Second Series, Series F; Third Series, Series G; Fourth Series, Series H and I (31 U.S.C. §3124(a))

A.8. **Production Credit Associations** – Notes, debentures, and similar obligations issued by Production Credit Associations (12 U.S.C. 2098)

A.9. **Student Loan Marketing Association (Sallie Mae)** – Obligations issued by the Student Loan Marketing Association (12 U.S.C. §1087-2(1))

A.10. **Tennessee Valley Authority** – Bonds issued by the Tennessee Valley Authority (16 U.S.C. §831n-4(d))

A.11. **U.S. Postal Service** – Obligations issued by the U.S. Postal Service (39 U.S.C. §2005(d)(4))

A.12. **U.S. Treasury** – Bonds, notes, bills, certificates, and savings bonds issued by the U.S. Treasury (31 U.S.C. §3124(a))

A.13. **Federal Home Loan Banks** – Bonds, notes, debentures, and other similar obligations issued by Federal Home Loan Banks (12 U.S.C. §1433)

A.14. **Commodity Credit Corporation** – Bonds, notes, debentures, and other similar obligations issued by the Commodity Credit Corporation (15 U.S.C. §713a-5)

A.15. **Federal Savings and Loan Insurance Corporation** – Bonds, notes, debentures, and other similar obligations issued by the Federal Savings and Loan Insurance Corporation (12 U.S.C. §1725(e))

A.16. **Resolution Funding Corporation** – Obligations issued by the Resolution Funding Corporation (12 U.S.C. §1441b(f)(7))

A.17. **Zero Coupon Bonds Considered to Be Issued by the U.S. Government** (including Certificate of Accrual on Treasury Securities (CATS), Treasury Investment Growth Receipts (TIGRs), Treasury Bond Receipts (TBRs), Coupon Treasury Receipts (CTRs), Easy Growth Treasury Receipts (ETRs), and Separate Trading of Registered Interest and Principal of Securities (STRIPS)).

List A Obligations: See *Modification for Expenses – U.S. Government Obligations* on Page 2 and *Modification for Expenses – Obligations (Other Than U.S. Government Obligations) That Congress Has Prohibited States From Taxing* on Page 3.

List B – Examples of Obligations Exempt From Connecticut Income Tax:

(No modification required in computing Connecticut adjusted gross income) The following are examples of exempt obligations, the income from which is properly not includable in gross income for federal income tax purposes and which is **not subtracted** from federal adjusted gross income in computing Connecticut adjusted gross income:

B.1. **Guam** – Bonds issued by the government of Guam (48 U.S.C. §1423a)

B.2. **Puerto Rico** – Bonds issued by the government of Puerto Rico (48 U.S.C. §745)

B.3. **Virgin Islands** – Bonds issued by the government of the Virgin Islands (48 U.S.C. §1574(b))

B.4. **Northern Mariana Islands** – Bonds issued by the government of the Northern Mariana Islands (Pub. L. No. 94-241, 90 Stat. 263, 271)

B.5. **American Samoa** – Bonds issued after October 16, 2004, by the government of American Samoa (48 U.S.C. §1670(b) as amended by Pub. L. No. 108-326, 118 Stat. 1270)

List B Obligations: See *Modification for Expenses – Obligations (Other Than U.S. Government Obligations) That Congress Has Prohibited States From Taxing* on Page 3.

List C – Examples of Obligations Subject to Connecticut Income Tax:

(No modification required in computing Connecticut adjusted gross income) The following are examples of taxable obligations, the income from which is properly includable in gross income for federal income tax purposes and which is **not added** to federal adjusted gross income in computing Connecticut adjusted gross income:

C.1. **Asian Development Bank** – Obligations issued by the Asian American Bank (22 U.S.C. §285 et seq.)

C.2. **Federally Chartered Financial Institutions** – Obligations issued by federally chartered banks, savings and loan associations, building and loan associations, credit unions, and other federally chartered financial institutions (12 U.S.C. §§21 et seq., 1461 et seq., 1751 et seq.)

C.3. **Federal Home Loan Mortgage Corporation (Freddie Mac)** – Mortgages, certificates, and other securities guaranteed by the Federal Home Loan Mortgage Corporation (12 U.S.C. §1452(e))

C.4. **Federal National Mortgage Association (Fannie Mae)** – Participation certificates and other obligations guaranteed by the Federal National Mortgage Association (12 U.S.C. §1719(d))

C.5. **Government National Mortgage Association (Ginnie Mae)** – Participation certificates and other

obligations guaranteed by the Government National Mortgage Association (12 U.S.C. §1721(b))

C.6. **Inter-American Development Bank** – Obligations issued by the Inter-American Development Bank (22 U.S.C. §283 et seq.)

C.7. **International Bank for Reconstruction and Redevelopment (World Bank)** – Obligations issued by the International Bank for Reconstruction and Redevelopment (22 U.S.C. §286 et seq.)

C.8. **Student Loan Marketing Association (Sallie Mae)** – Obligations guaranteed by the Student Loan Marketing Association (20 U.S.C. §1087-2)

List C Obligations: Any interest on indebtedness incurred or continued to purchase or carry these obligations or securities, and any amortizable bond premium for the taxable year on these bonds or obligations, is deductible only to the extent deductible in determining federal adjusted gross income.

List D – Examples of Obligations Subject to Connecticut Income Tax:

(Modification required in computing Connecticut adjusted gross income) The following are examples of taxable obligations, the income from which is properly not includable in gross income for federal income tax purposes and is **added to** federal adjusted gross income in computing Connecticut adjusted gross income:

D.1. **Other states and their municipalities** – Bonds and obligations issued by other states or by municipalities of other states, including Zero Coupon Bonds considered to be issued by other states or by the municipalities of other states.

D.2. **District of Columbia** – Bonds and other obligations issued by the District of Columbia (31 U.S.C. §3124(b))

List D Obligations: See *Modification for Expenses – State and Municipal Government Obligations* on Page 4.

Effect on Other Documents: This Policy Statement modifies and supersedes **Policy Statement 2003(6)**, *Connecticut Income Tax on Bonds or Obligations Issued by the United States Government, by State Governments, or Municipalities*.

Effect on This Document: A Policy Statement explains in depth a current Department of Revenue Services (DRS) position, policy, or practice affecting the tax liability of taxpayers.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
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- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu. Only forms (not publications) are available through TAX-FAX.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use ***Fast-File*** to file admissions and dues tax, attorney occupational tax, business entity tax, business use tax, estimated corporation business tax, nursing home user fee, or withholding tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on ***File/Register OnLine***.
 - **For resident income tax returns:** Use ***WebFile*** to file personal income tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on ***File/Register OnLine***.
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